The Audit Process for the State of North Dakota

August 14, 2007

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Introduction

The powers and duties of the State Auditor are set out in North Dakota Century Code (NDCC) Chapter 54-10. The Office of the State Auditor fulfills these responsibilities by performing: annual financial statement audits; biennial operational audits; a biennial audit of the State's federal financial assistance; and performance audits. NDCC ¶ 54-35-02.2 states that it is the duty of the Legislative Audit and Fiscal Review Committee (LAFRC) to:

> "…study and review audit reports as selected by the committee from those submitted by the state auditor, confer with the auditor and deputy auditors in regard to such reports, and when necessary, to confer with representatives of the department, agency, or institutions audited in order to obtain full and complete information in regard to any and all fiscal transactions and government operations of any department, agency or institution of the state."

The Office of the State Auditor believes the LAFRC plays an important accountability role in the governance of the State of North Dakota. The Office of the State Auditor appreciates the active interest the LAFRC has taken in the fiscal affairs and operations of the state and the relationship that has developed with the LAFRC and Legislative Council staff.

This report provides a summary of the types of audits conducted by the State Audit Division of the Office of the State Auditor, and the Division's relationship with the LAFRC.

In addition to audits of individual state agencies, the Division of State Audit performs three state-wide audits. The state-wide audits include: the audit of the State of North Dakota's Basic financial statements (BFS), which are included in the State's Comprehensive Annual Financial Report (CAFR); the University System audit; and the biennial audit of the State's federal financial assistance (often referred to as the "single audit"). Information system audits are also performed on the state's computer systems.

The audit of the State's BFS has been done by the Office of the State Auditor since the CAFR was first published in 1991. The first University System audit was for the fiscal year ending June 30, 1996. The office has been performing single audit work since 1984 as a condition of the State receiving federal funds. The first state-wide single audit was for the two fiscal years ending June 30, 1992. Examples of information systems audits include the general controls audit of the Information Technology Department (ITD), ConnectND Finance audit and the NDUS ConnectND Student Administration system audit.

For biennial agency audits, the NDCC gives the State Auditor the responsibility to determine the contents of audit reports. In the year 2000, with the needs of our stakeholders in mind, the Office of the State Auditor changed from following financial statement audit standards to following the performance audit standards contained in *Government Auditing Standards*, issued by the Comptroller General of the

United States. The main disadvantage of following financial statement audit standards is that those standards limit an audit's objective to giving an opinion on the financial statements. Following the performance audit standards gives us the flexibility to set our audit objectives to best meet the needs of our stakeholders.

Biennial agency audits (often referred to as operational audits) objectives include providing reliable audited financial statements and answering the following questions:

- What are the most important areas of the agency's operations and is internal control adequate in these areas?
- What are the significant and high-risk areas of legislative intent applicable to the agency and are they in compliance with these laws?
- Are there areas of agency operations where we can help to improve efficiency or effectiveness?

There are approximately 80 audits of state agencies. The Office of the State Auditor does not have the statutory authority to conduct financial statement audits for certain agencies, such as: the Bank of North Dakota; the State Fair Association; and the North Dakota Development Fund. A complete list of state agencies not audited by the Office of the State Auditor is provided in Appendix B of this report. Each of these entities receives an annual financial statement audit by a CPA firm. For CAFR audits we rely on these audits and note them in our opinion.

Authority for performance audits is contained in subsection 4 of NDCC ¶ 54-10-01, which grants the State Auditor the power to: "Perform or provide for performance audits of state agencies as determined necessary by the state auditor or the legislative audit and fiscal review committee." Performance audits are required to be performed in accordance with *Government Auditing Standards*. The Office of the State Auditor has been conducting performance audits since 1991.

Government Auditing Standards state that "performance audits entail an objective and systematic examination of evidence to provide an independent assessment of the performance and management of a program against objective criteria as well as assessments that provide a prospective focus or that synthesize information on best practices or cross-cutting issues. Performance audits provide information to improve program operations and facilitate decision making by parties with responsibility to oversee or initiate corrective action, and improve public accountability." Performance audits objectives can include assessing program effectiveness and results; economy and efficiency; internal control; compliance with legal or other requirements; and objectives related to providing prospective analyses, guidance, or summary information. *Government Auditing Standards* further discuss these objectives are as follows:

> Program effectiveness and results audit objectives address the effectiveness of a program and typically measure the extent to which a program is achieving its goals and

objectives. Economy and efficiency audit objectives concern whether an entity is acquiring, protecting, and using its resources in the most productive manner to achieve program objectives. Program effectiveness and results audit objectives and economy and efficiency audit objectives are often interrelated and may be concurrently addressed in a performance audit.

Internal control audit objectives relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives. Internal control includes the processes and procedures for planning, organizing, directing, and controlling program operations, and the system put in place for measuring, reporting, and monitoring program performance.

Compliance audit objectives relate to compliance criteria established by laws, regulations, contract provisions, grant agreements, and other requirements that could affect the acquisition, protection, and use of the entity's resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers. Compliance objectives also concern the purpose of the program, the manner in which it is to be conducted and services delivered, and the population it serves.

According to NDCC ¶ 54-10-27, the Office of the State Auditor is responsible for receiving audit reports of the occupational and professional boards, which are audited by CPA firms or our Division of Local Government Audits. There are 42 of these entities, most of which receive audits once every two years. Appendix C contains a listing of these boards which are described in Title 43 of the North Dakota Century Code.

Auditing Standards

The Office of the State Auditor takes pride in following the industry's highest auditing standards. These standards include generally accepted auditing standards, as prescribed by the American Institute of Certified Public Accountants (AICPA), as modified by *Government Auditing Standards*, as issued by the Comptroller General of the United States. The type and scope of an audit determines which auditing standards must be followed. Financial statement audits are done in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. As discussed previously, performance audits and biennial agency operational audits follow the performance audit standards included in *Government Auditing Standards*.

Relating to financial statement audits, *Government Auditing Standards* and U.S. generally accepted auditing standards require us to communicate the following to audit committees such as the Legislative Audit and Fiscal Review Committee.

Scope of Financial Statement Audits:

The purpose of a financial statement audit is to express opinions on whether the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. The entity's management is responsible for the financial statements.

The Office of the State Auditor performs financial statement audits on the state as a whole, the University System and certain state agencies which are required to have annual financial statement audits (for example, the ND Lottery and certain commodity groups are required to have annual audits by their national associations). Most state agencies receive biennial operational audits. Commodity groups without an annual audit requirement are audited in accordance with NDCC 4-24-10. These reports do not include financial statements prepared in accordance with generally accepted accounting principles and therefore are special purpose audits conducted in accordance with SAS 62. Because these reports do not include financial statements prepared in accordance with generally accepted accounting principles the reports are restricted as required by SAS 62.

The audit of the State's basic financial statements (BFS) is performed annually, and must be completed by the middle of December to qualify for the Certificate of Achievement for Excellence in Financial Reporting. This award is given by the Government Finance Officers Association and is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. The BFS are part of the larger document called the Comprehensive Annual Financial Report (CAFR). For the audit of basic financial statements our audit report will provide opinions for: governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining funds.

The combining and individual fund financial statements and schedules included in financial reports are subject to the same auditing procedures applied in the audit of the basic financial statements. We issue opinions "in relation to the basic financial statements" on these statements and schedules.

The required supplementary information including the management's discussion and analysis and the budgetary comparison schedules, are subject to limited procedures, which will consist principally of inquiries regarding the methods of measurement and presentation of the required supplementary information. However, due to the nature of these disclosures we do not audit the information and will not express an opinion on it.

The introductory and statistical sections included in comprehensive annual financial reports are not subject to the auditing procedures applied in an audit of basic financial statements, and thus our reports will not express opinions thereon.

When expressing an opinion on a set of financial statements in accordance with auditing standards, the Office of the State Auditor assumes certain responsibilities regarding our clients' internal control and compliance with laws, regulations, contracts, and grant agreements. The following explains our responsibilities for these areas.

Internal Control

Responsibility under generally accepted auditing standards. In planning and performing our audits, we are required to consider the internal control sufficient to plan the audit in order to determine the nature, timing, and extent of our auditing procedures for the purpose of expressing our opinion on the basic financial statements.

We will obtain an understanding of the design of the relevant controls and whether they have been placed in operation, and we will assess control risk. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Further tests of controls are required only if control risk is assessed below the maximum level. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

A financial statement audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, we will inform management and the Legislative Audit and Fiscal Review Committee of any matters involving internal control and its operation that we consider to be significant deficiencies under standards established by the American Institute of Certified Public Accountants. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles (GAAP) such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Responsibility under *Government Auditing Standards*. These standards do not require us to perform any procedures with respect to internal control beyond those required by generally accepted auditing standards. However, these standards require us to issue a written report on our consideration of internal control. Our report must disclose significant deficiencies and material weaknesses, if any, that are identified as a result of the procedures we performed. The report does not provide any assurance on the design or effectiveness of the agency's internal control.

Compliance with Laws and Regulations

Responsibility under generally accepted auditing standards. The Office of the State Auditor is required to design the audit to provide reasonable assurance of detecting fraud and other illegal acts with a direct and material effect on financial statement amounts.

Responsibility under *Government Auditing Standards*. In addition to the responsibilities under generally accepted auditing standards, we are required to design the audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements with a direct and material effect on the determination of financial statement amounts. *Government Auditing Standards* require that if specific information comes to our attention providing evidence of possible noncompliance that could have a material indirect effect on the financial statements, we must apply audit procedures designed to ascertain whether that noncompliance has occurred.

Under *Government Auditing Standards* we are required to issue a written report on the results of the procedures performed with respect to compliance with applicable laws, regulations, contracts, and grant agreements.

Federal Compliance Audit Responsibilities:

The Single Audit Act as amended in 1996 requires the Office of the State Auditor to audit federal assistance received by the State. Copies of this report are sent to the Federal clearinghouse and various Federal agencies. This audit is done on a state-wide basis every two years.

One of the purposes of the single audit is to determine if the Schedule of Expenditures of Federal Awards is fairly stated in relation to the basic financial statements. As with financial statement audits, the Office of the State Auditor has certain responsibilities relating to internal control and compliance with laws, regulations, contracts, and grant agreements relating to the single audit. These are discussed below.

Internal Control

In addition to the procedures performed to meet generally accepted auditing standards and *Government Auditing Standards* requirements, the Single Audit Act and OMB Circular A-133 require that we specifically consider internal control over major federal financial assistance programs and perform tests of those controls. The tests of controls must be designed to support a low control risk assessment for major federal programs. We are required to issue a report (in addition to the report required by *Government Auditing Standards*) on our consideration of internal control over major federal financial assistance programs, including tests of those controls. Our report must disclose any significant deficiencies and material weaknesses we identify as a result of the procedures we performed. This report does not provide any assurance on the design or the effectiveness of internal control used to administer federal financial assistance programs.

Compliance with Laws and Regulations

In addition to the requirements of generally accepted auditing standards and *Government Auditing Standards*, the Single Audit Act and OMB Circular A-133 require auditors to perform procedures sufficient to express an opinion on whether the State has administered its major federal financial assistance programs in compliance with applicable laws and regulations that have a direct and material effect on each major program.

Management Responsibilities

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; and for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information and the respective changes in financial position and cash flows, where applicable, in conformity with U.S. generally accepted accounting principles. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

We advise management about appropriate accounting principles and their application and will advise them in the preparation of their financial statements, but the responsibility for the financial statements remains with management. As part of our engagement, we may propose standard, adjusting, or correcting journal entries to their financial statements. Management is responsible for reviewing the entries and understanding the nature of any proposed entries and the impact they have on the financial statements. Management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that management is responsible for making all financial records and related information available to us and for accuracy and completeness of that information. Management's responsibilities include adjusting financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud or illegal acts could have a material effect on the financial statements. Management is also responsible for informing us of their knowledge of any allegations of fraud or suspected fraud or illegal acts affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that they comply with applicable laws and regulations and for taking timely and appropriate steps to remedy any fraud, illegal acts, violations of contracts or grant agreements, or abuse that we may report.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed above. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations as well as your planned corrective actions, and the timing and format related thereto.

Required Audit Committee Communication

Private industry and government have increasingly been placing more importance on the establishment and use of audit committees. The Office of the State Auditor considers the LAFRC the audit committee for the State of North Dakota. As an audit committee, the LAFRC serves an important role in providing oversight of the executive branch of government. The LAFRC is in a unique position of being able to question agency management regarding how they are carrying out their responsibilities, and it also has the authority to ensure corrective action is taken. The LAFRC also serves to make sure the Office of the State Auditor is meeting the needs and expectations of the State's Legislature.

Statement on Auditing Standards Number 61 "Communication with Audit Committees" requires auditors to communicate certain matters related to the conduct of an audit to the audit Committee. The Matters which an auditor is required to communicate to the audit committee are as follows:

1. **Auditor's Responsibility under Generally Accepted Auditing Standards.** Financial audit standards require that we plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

2. **Significant Accounting Policies.** Management has the responsibility for selection and use of appropriate accounting policies. We do normally advise management about the appropriateness of accounting policies and their application. The significant accounting policies are disclosed in the notes to the financial statements. Significant changes will be highlighted if applicable, when reports are presented.

3. **Accounting Estimates.** Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. Any significant estimates will be brought to your attention during the presentation of future audit reports.

4. **Significant Audit Adjustments.** For the purposes of this report, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). Any significant adjustments in future audits will be reported to the LAFRC when the report is presented.

5. **Disagreements with Management.** Disagreements with management regarding the application of accounting principles, the basis for management's judgments about accounting estimates, the scope of the audit, disclosures to be included in the financial statements, or other matters significant to the entity's financial statements or the auditor's report, will be communicated to the LAFRC when the report is presented.

6. **Consultation with Other Accountants.** If an entity has consulted with other auditors about auditing and accounting matters, this fact will be communicated to the LAFRC when the report is presented.

7. **Difficulties Encountered in Performing the Audit.** Significant difficulties encountered by the auditor in dealing with management relating to the performance of the audit will be reported in the audit report and communicated to the LAFRC when the report is presented. Such difficulties may include, among other things, unreasonable delays by management in providing needed information, the unavailability of client personnel and the failure of client personnel to complete needed information in a timely manner.

Audits Performed By Independent CPA Firms

As discussed earlier, the Office of the State Auditor does not have the statutory authority to audit all state agencies. Agencies that cannot be audited by the Office of the State Auditor are audited by CPA firms.

At the request of the Office of the State Auditor certain other state agencies are also audited by CPA firms. When this is done, it is because the Office of the State Auditor does not have sufficient resources to audit the entity. Additionally, state law requires the governing board of any occupational or professional board to provide for an audit.

CPA firms auditing state agencies are required to follow the document entitled "*Guidelines to Independent Certified Public Accountants Performing Audits of State Agencies*". This document was originally developed by the LAFRC, and has been amended by the Office of the State Auditor, with input from the LAFRC.

Audits performed by CPA firms are paid for by the state agency being audited. Appendix B lists those audits done by CPA firms.

Presentation of Audit Reports

Audits when finalized are available for presentation to the LAFRC. Several weeks before a LAFRC meeting, a listing is prepared and sent to the Legislative Council indicating which audits have been finalized and are available for presentation to the LAFRC. Only those reports selected for presentation will be formally presented at a LAFRC meeting.

The length and detail of the presentation of reports depends upon the desire of the LAFRC members. In recent years, the presentation has concentrated primarily on state audit findings and recommendations, and the specific list of comments which the LAFRC has asked all auditors to make.

As a general rule, the results of audits are presented to the LAFRC by the Office of the State Auditor or the CPA firm who performed the audit. Representatives from state agencies are allowed to make any comments they wish at the LAFRC meetings concerning their reports.

In accordance with state law, working papers from an audit in progress are not public records and are exempt from the open record laws. Audit reports are not considered public information until they are substantially complete. We have defined substantially complete to mean the auditees' responses to any recommendations have been received and included in the audit report.

Audit Recommendations and Implementation

Significant audit findings are included in the audit reports along with recommendations. The state agencies are asked to respond in writing to all recommendations appearing in the audit report. Their responses are included after the auditor's findings and recommendations. In those instances where the Office of the State Auditor believes that the state agency's response is inappropriate, inaccurate, or misleading, a concluding response will be added by the Office of the State Auditor.

Any recommendations not implemented during the next audit period are included in the audit report as prior recommendations not implemented, provided the recommendations are still applicable.

Audits of the State Auditor's Office

The Office of the State Auditor is audited every two years by an independent CPA firm that is contracted with by the Legislative Council. The audit report and the results of the audit are presented to the Legislative Audit and Fiscal Review Committee.

Additionally, as required by *Government Auditing Standards*, the Office of the State Auditor receives an external peer review once every three years. This peer review is conducted by the National State Auditor's Association (NSAA). The NSAA selects audit professionals from other state audit organizations to perform an independent assessment of our compliance with auditing standards. The last external quality control review was completed May 19, 2005 and resulted in a clean opinion. This opinion, along with our letter of comments, is included at the end of this report in Appendix A.

Current and Future Considerations

SAS 112 entitled *Communicating Internal Control Related Matters Identified in an Audit* will be implemented for years ending after December 31, 2006. SAS 112 will increase the number of findings and the types of findings presented in financial statement audit reports.

Relating to the number of findings, the State of Arizona applied the new requirements of SAS 112 to past findings from a year to determine the effect of the new standard. The schedule noted below shows that under the new guidance, given the same conditions, they not only had more findings, but the significance or severity of the findings were elevated.

	Pre SAS 112	Post SAS 112
Material weaknesses	3	32
Reportable conditions (significant deficiencies)	11	156
Management letter comments	65	78
Oral comments	340	185
Total	419	451

The increase in number of findings is primarily due to a change in definitions. Specifically, if the magnitude of misstatement of an internal control deficiency is more than inconsequential, and the likelihood of the misstatement is more than remote, the control deficiency must be reported as a significant deficiency (and possibly as a material weakness). Further there is a “prudent official test.” After the auditor evaluates a control deficiency, they need to ask themselves if a prudent official (such as members of the LAFRC) would increase the severity, if so the auditor must increase the severity and report the finding as a significant deficiency or material weakness. It is also important to note that the standard clearly indicates it is the potential for misstatement and not an actual misstatement that is to be considered.

Relating to the different types of findings that may find their way into audit reports, SAS 112 specifies specific areas where deficiencies ordinarily will result in significant deficiencies and circumstances that are strong indicators of material weaknesses. For example, lack of antifraud programs and controls will now normally result in findings. While many antifraud programs relate to the frauds experienced in the private sector (for example Enron and WorldCom), state agencies should also have programs and controls in place. The Office of the State Auditor will expect agencies to perform documented fraud risk assessments and properly address high risk areas. An example of a circumstance that would indicate a material weakness would be ineffective oversight by those charged with governance or ineffective overall governance structure.

Appendix A

External Quality Control Report

National State Auditors Association

May 19, 2005

Mr. Robert R. Peterson
State Auditor
State Capitol Building
600 East Boulevard
Bismarck, North Dakota 58505

Dear Mr. Peterson:

We have reviewed the system of quality control of North Dakota Office of State Auditor (the office) in effect for the period April 1, 2004 to March 31, 2005. A system of quality control encompasses the office's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with government auditing standards. The design of the system and compliance with it are the responsibility of the office. Our responsibility is to express an opinion on the design of the system, and the office's compliance with the system based on our review.

We conducted our review in accordance with the policies and procedures for external peer reviews established by the National State Auditors Association (NSAA). In performing our review, we obtained an understanding of the office's system of quality control for engagements conducted in accordance with government auditing standards. In addition, we tested compliance with the office's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the office's policies and procedures on selected engagements. Because our review was based on selective tests, it would not necessarily disclose all weaknesses in the system of quality control or all instances of lack of compliance with it.

Because there are inherent limitations in the effectiveness of any system of quality control, departures from the system may occur and not be detected. Also, projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the system of quality control of State of North Dakota, Office of the State Auditor, in effect for the period April 1, 2004 through March 31, 2005, has been suitably designed and was complied with during the period to provide reasonable assurance of conforming with government auditing standards.

Pamela J. Robinson
Team Leader
National State Auditors Association
External Peer Review Team

Concurring Reviewer
National State Auditors Association
External Peer Review Team

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National State Auditors Association

May 19, 2005

Mr. Robert R. Peterson
State Auditor
State Capitol Building
600 East Boulevard
Bismarck, North Dakota 58505

Dear Mr. Peterson:

We have reviewed the system of quality control of North Dakota Office of the State Auditor in effect for the period April 1, 2004 to March 31, 2005 and have issued our report thereon dated May 19, 2005. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion.

Field Work Standards for Financial Audits

Finding – Statements on Auditing Standards Number 99, Consideration of Fraud in a Financial Statement Audit, requires that the auditor should conduct the engagement with a mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor's belief about management's honesty and integrity . . . the auditor should not be satisfied with less-than-persuasive evidence because of a belief that management is honest. SAS 99 was effective for audits of financial statements for periods beginning on or after December 15, 2002. Our review found the Division of Local Government Audit did not implement SAS 99 during the period of our review. SAS 99 had been implemented by the Division of State Audit. However, our review found the state CAFR audit documentation did not support that the requirements of the SAS were fully implemented.

Recommendation – The North Dakota Office of State Auditor should ensure that the requirements of SAS 99 are fully implemented.

Response – The office concurs with this finding and will fully implement SAS 99 for the Division of Local Government Audits and will provide better documentation for the state CAFR audit.

Reporting Standards for Financial Audits

Finding – GAGAS reporting standards require the audits use the AICPA standards. The AICPA has issued the State and Local Government Audit Guide with examples of wording for audit reports. North Dakota Office of State Auditor's policies and procedures require the audits to review the latest guidance from the AICPA.

The office did not properly implement all the changes made to the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, Reportable Instances on Noncompliance, and Other Matters Identified" or for the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in

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Accordance with OMB Circular A-133." The changes were effective May 1, 2004 and were partially implemented on some audits but some audits were released with the former allowable language.

Recommendation – The North Dakota Office of State Auditor should carefully review all reports for compliance with required language, especially during a time of changing standards.

Response – The office concurs with this finding and will implement procedures to ensure timely implementation of new reporting language.

Reporting Standards for Performance Audits

Finding – GAGAS reporting standards for performance audits require that auditors should report conclusions when called for by the audit objectives and the results of the audit. Conclusions should be clearly stated, not implied. Conclusions are stronger if they set up the report's recommendations and convince the knowledgeable user of the report that action is necessary.

North Dakota Office of State Auditor's quality control policies and procedures also require that conclusions should be clearly stated and not implied. During our review, we noted several audits that did not properly conclude on the audit objectives. The audit report identified the audit objectives and any findings and recommendations found during the audit. However, it did not clearly state the overall conclusion on the objectives. Without clear conclusions, the readers must assume what the conclusions are on the audit objectives.

Recommendation – We recommend that the North Dakota Office of State Auditor should clearly state the conclusions for each audit objective in their reports.

Response – The office concurs with this finding and will ensure future operational audit conclusions are clearly stated.

Respectfully submitted,

Pamela J. Robinson

Team Leader
National State Auditors Association
External Peer Review Team

Concurring Reviewer
National State Auditors Association
External Peer Review Team

Appendix B

Audits Performed By CPA Firms

As of June 30, 2007

1. Bank of North Dakota [1]
   a. Ag PACE Fund [1]
   b. Beginning Farmer Revolving Loan Fund [1]
   c. Community Water Facility Loan Fund [1]
   d. Developmentally Disabled Facility Loan Fund [1]
   e. Guaranteed Student Loan Program [1]
   f. PACE Fund [1]
   g. Student Loan Trust Program [1]
2. Board of University and School Lands [1]
3. Building Authority [1]
4. Housing Finance Agency [1]
5. Job Service North Dakota [1]
6. Legislative Assembly [2]
7. Legislative Council [2]
8. Mandan Remediation Trust [3]
9. North Dakota Development Fund [4] (NDCC § 10-30.3-08)
10. Office of the State Auditor [2]
11. Public Employees Retirement System [1]
12. Public Finance Authority [1]
13. Retirement and Investment Office [1]
14. State Fair Association [4] (NDCC § 4-02.1-18)
15. Workforce Safety & Insurance [1]

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[1] Audits contracted for by the State Auditor.

[2] Audits contracted for by the Legislative Council.

[3] Audits contracted by the Trust's Board.

[4] The board of directors for this entity contracts with a CPA firm for audits in accordance with the NDCC section referenced.

Appendix C

Occupational And Professional Boards [1]

As of June 30, 2007

Abstractor's Board of Examiners [2]
Board of Accountancy
Board of Addiction Counseling Examiners
Board of Architecture
Board of Athletic Trainers [2]
Board of Barber Examiners
Board of Chiropractic Examiners
Board of Clinical Laboratory Practice
Board of Cosmetology
Board of Counselor Examiners
Board of Dental Examiners
Board of Dietetic Practice
Board of Examiners for Nursing Home Administrators
Board of Examiners on Audiology and Speech-Language Pathology
Board of Funeral Service
Board of Hearing Instrument Specialists
Board of Law Examiners
Board of Massage [2]
Board of Medical Examiners
Board of Nursing
Board of Occupational Therapy Practice
Board of Optometry
Board of Pharmacy
Board of Plumbing
Board of Podiatric Medicine
Board of Psychologists Examiners
Board of Reflexology [2]
Board of Registration for Professional Engineers and Land Surveyors
Board of Registration for Professional Soil Classifiers [2]
Board of Social Work Examiners
Board of Veterinary Medical Examiners
Board of Water Well Contractors [2]
Education Standards and Practices Board
Electrical Board
Examining Committee for Physical Therapists
Firemen's Association
Marriage and Family Therapy Licensure Board
Peace Officer Standards and Training Board
Private Investigative & Security Board
Real Estate Appraiser Qualifications and Ethics Board
Real Estate Commission
Respiratory Care Examining Board

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[1] NDCC 54-10-27 states:

"Instead of providing for an audit every two years, an occupational or professional board that has less than ten thousand dollars of annual receipts may submit an annual report to the state auditor. The report must contain the information required by the state auditor. The state auditor also may make any additional examination or audit determined necessary in addition to the annual report."

[2] Receives less than $10,000 of annual receipts.